



## Muni Credit Wrap-up for 2016

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My apology to Charles Dickens by saying "It was the best of times, it was the worst of times".

The best of times: new municipal bond issuance is poised for an all-time record, indicating investors' confidence in the municipals. Through November 30, \$416 billion of new issues is 11% above last year's \$375.5 billion. With December sales yet to be reported, the market can set a new issue record beyond \$433 billion in 2010.

For the worst of times: we are witnessing the largest default of tax-exempt municipal bonds on record, with Puerto Rico in virtual or near default on about \$70 billion of bonds issued by the Commonwealth and its subsidiaries (the Government Development Bank, the Electric Authority, General Obligation bonds, COFINA sales tax bonds, and PRIFA Rum Excise Tax bonds).

Both trends defy analysis.

With the well-publicized problems of Puerto Rico, most pundits predicted a drop in municipal bond issuance because of investor fears of fall-out and a "ripple" effect of defaults by other issuers. That has not occurred. In fact, if not for Puerto Rico's abrogation of debt, defaults by other issuers in 2016 would be below average.

Puerto Rico's willingness to default also challenges the belief that an issuer will honor debt in order to find buyers for their bonds in the future. So far, Puerto Rico has not felt the real pain of losing market access to sell bonds, but they will surely will. They will be shunned by the marketplace, or will have to pay "loan shark" interest rates to survive.

Meanwhile, municipal bonds continue to pay on time and in full, backing up their reputation as "the second safest investment after Treasury Bonds".

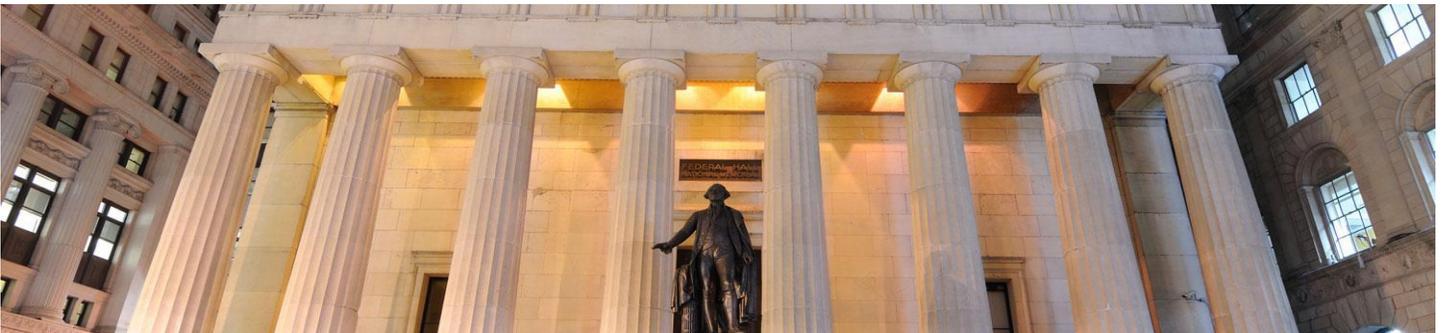
## About the Author

### **RICHARD P. LARKIN, Stoever Glass & Co., Inc.**

*Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee.*



*“Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique,” said Roland Stoever of Stoever Glass.*



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